

1.0 Department of Alcoholic Beverage Control

Summary

Utah is one of eighteen liquor control states and one of two totally State run systems. The Department operates 36 State stores and approximately 80 package agencies. These State stores and package agencies are the exclusive retailers of liquor, wine and heavy beer (more than 4 percent alcohol by volume) in the State. The Department also administers liquor laws and licenses on-premise businesses, manufacturers, wholesalers, warehouse, importers, and liquor representatives.

In an effort to improve business efficiency and to address the Year 2000 problem, the Department continues efforts replacing and upgrading information systems.

Mission Statement

The mission of the Department is to regulate the manufacture, sale and use of alcoholic beverages in a manner which serves the citizens and tourist population of Utah. Without promoting or encouraging the sale or consumption of alcoholic beverages, the Department operates as a public business using sound management principles and practices, and generates sales revenue to support State and local governments. The Department licenses and regulates the sale of alcoholic beverages in a manner and at prices that reasonably satisfy the public demand while also protecting the public interest, including the rights of the citizens who do not wish to consume alcoholic products.

Income From Liquor Sales

Liquor sales provide a major source of income to the State's General Fund. In FY 1998, gross sales totaled over \$121 million, with a net profit of \$26.3 million. This profit was contributed to the General Fund to support State government operations. The FY 2000 liquor profit is estimated to continue this trend, including the Analyst's budget recommendation.

Liquor sales support several special government programs. These include school lunch and local government alcohol and drug abuse programs.

Financial Summary

	FY 1999	FY 2000	
Financing	Estimated	Analyst	Difference
GFR-Liquor Control Fund	\$13,840,900	\$13,459,800	(\$381,100)
Beginning Nonlapsing	100,000		(100,000)
Total	\$13,940,900	\$13,459,800	(\$481,100)
Programs			
Executive	\$842,400	\$844,500	\$2,100
Administration	974,300	975,200	900
Operations	2,182,000	1,411,100	(770,900)
Warehouse	823,200	681,200	(142,000)
Stores and Agencies	9,119,000	9,130,800	11,800
Building Blocks	0	417,000	417,000
Total	\$13,940,900	\$13,459,800	(\$481,100)
Standard FTE	286.50	286.50	0.00
Expansion FTE	0.00	0.00	0.00

2.0 Budget Highlights: Department of Alcoholic Beverage Control

2.1 Mid-Point Salary Increase

The Department has requested a \$551,000 General Fund Restricted -Liquor Control Fund building block to raise all Department employees to mid-point on the salary scale. The Department reports experiencing turnover resulting in costs for retraining employees as they leave to take employment with higher pay.

It is reported to be difficult getting and retraining quality applicants in stores, because of low pay, limited hours and no benefits. (Most new store employees are initially hired as part-time employees.) Applicants for store and agency jobs must be at least 21 years of age. These employees are responsible for selling a controlled substance. The 1998 Legislature approved funding and FTE for 26 new positions for Stores and Agencies. An agency has authority to hire up to the midpoint, but must address the equity issue with current employees who may be below the mid-point.

The Analyst notes that the equity issue is beyond the Department itself to equity with all State employees. The Department of Human Resource Management reports that well over 50 percent of State employees are below the salary mid-point. The State requires a position to be at least 11 percent below mid-point and have at least an 11 percent turnover rate before a market comparability adjustment is recommended. No market comparability adjustments were recommended for this Department by the Department of Human Resource Management for FY 2000.

The Analyst recommends that the Legislature consider a range of options from full funding to bring all employees to mid-point to no funding for any employee.

Full midpoint funding for All Department employees	\$551,000
Full midpoint funding for Warehouse & Stores/Agencies only	523,900
Full midpoint funding for Stores/Agencies only	461,900
One step for all employees	206,000
One step for Warehouse and Stores/Agencies Only	151,300
One step for Stores/Agencies Only	136,000
No additional funding other than the State compensation plan	0

2.2 Office Systems Hardware / Software Maintenance and Replacement Program

The Department has received a substantial amount of one-time funding over the last few years (\$812,000 for FY 1999) to upgrade technology and replace the point-of-sale system. The Analyst recommends an ongoing increase of \$120,000 General Fund Restricted - Liquor Control Fund to establish a program for the methodical acquisition, replacement and upgrading of outdated equipment and software. This should provide sufficient funds for systematic replacement on a three year rotation. See funding chart on the next page.

Office Systems Hardware and Software Replacement	
Ongoing Funding	FY 2000 Analyst
GFR-Liquor Control Fund	\$120,000
Expenditures	
Data Processing	\$120,000
Total	\$120,000

2.3 Systems Completion

The Department has replaced the entire point-of-sale system in all of the State owned liquor stores. The warehousing system has also been replaced. Enhancements are currently being made to the system. It is projected that system changes and upgrades will continue into FY 2000. The Analyst recommends one-time funding of \$100,000 General Fund Restricted - Liquor Control Fund to address these programming, consulting and system needs.

Systems Completion	
One-Time Funding	FY 2000 Analyst
GFR-Liquor Control Fund	\$100,000
Expenditures	
Data Processing	\$100,000
Total	\$100,000

2.4 Store Maintenance

House Bill 2 (1998 General Session) requires the Department (as well as all others) to maintain State owned facilities at a certain level of compliance to State code. The Department can not meet this standard and has begun to turn this responsibility over to the Division of Facilities and Construction Management (DFCM). Additional funding is required by the Department to reimburse DFCM to maintain the higher standards.

Store Maintenance	
Ongoing Funding	FY 2000 Analyst
GFR-Liquor Control Fund	\$197,000
Expenditures	
Current Expense	\$197,000
Total	\$197,000

3.1 Programs: Department of Alcoholic Beverage Control - Executive Director's Office

Recommendation The Analyst recommends funding of \$844,500 General Fund Restricted - Liquor Control Fund.

Financial Summary

	FY 1998	FY 1999	FY 2000	
Financing	Actual	Estimated	Analyst	Difference
GFR-Liquor Control Fund	\$836,200	\$842,400	\$844,500	\$2,100
Total	\$836,200	\$842,400	\$844,500	\$2,100
% Change		0.7%	0.2%	
Expenditures				
Personal Services	\$796,000	\$817,200	\$817,200	\$0
Travel	6,500	7,300	7,300	0
Current Expense	33,700	17,900	20,000	2,100
Total	\$836,200	\$842,400	\$844,500	\$2,100
% Change		0.7%	0.2%	
Standard FTE	15.00	15.00	15.00	0.00
Enhancement FTE				0.00

Summary

The Executive Director's Office sets policies and procedures for the Department. It provides information to the part-time Commission for their use to decide where to locate liquor stores, product mark-up, and issuance of licenses and permits. Liquor license officers investigate compliance with Utah's liquor laws and make recommendations regarding license applications, suspensions, and revocations.

The Department of Public Safety also has liquor enforcement officers who police the private clubs and restaurants. They are funded separately.

Performance Measures

Performance measures for this Department are listed in profit and loss as with a retail business. The Department does no advertising. Retail sales continue to increase. Expenses are maintained at a low cost and profits are added to the General Fund annually.

Many activity measures are collected to assure profitability, but are not reported separately. Section 3.6 summarizes the Department sales and income performance. FY 1998 continued the increasing profit transfer of over \$26.3 million. Sales for the first four months of FY 1999 indicates the trend is continuing.

3.2 Programs: Department of Alcoholic Beverage Control - Administration

Recommendation The Analyst recommends a budget of \$975,200 General Fund Restricted - Liquor Control Fund.

Financial Summary

	FY 1998	FY 1999	FY 2000	
Financing	Actual	Estimated	Analyst	Difference
GFR-Liquor Control Fund	\$773,600	\$974,300	\$975,200	\$900
Total	\$773,600	\$974,300	\$975,200	\$900
% Change		25.9%	0.1%	
Expenditures				
Personal Services	\$365,300	\$407,400	\$407,400	\$0
Travel	700	800	800	0
Current Expense	407,600	565,700	566,600	900
Data Processing		400	400	0
Total	\$773,600	\$974,300	\$975,200	\$900
% Change		25.9%	0.1%	
Standard FTE	9.00	9.00	9.00	0.00
Enhancement FTE				0.00

Summary

Administration provides the centralized administrative services to the other programs within the Department. This activity includes budgeting, accounting, and auditing of stores and package agencies for the Department.

3.3 Programs: Department of Alcoholic Beverage Control - Operations

Recommendation The Analyst recommends a continuing budget of \$1,411,100 General Fund Restricted - Liquor Control Fund. The recommendation is \$670,900 less than FY 1999 due to one-time funding of \$670,000 and a \$900 Internal Service Fund reduction in the area of Information Technology.

Financial Summary

	FY 1998	FY 1999	FY 2000	
Financing	Actual	Estimated	Analyst	Difference
GFR-Liquor Control Fund	\$2,665,600	\$2,082,000	\$1,411,100	(\$670,900)
Beginning Nonlapsing	51,000	100,000		(100,000)
Closing Nonlapsing	(100,000)			
Lapsing	(10,300)			
Total	\$2,606,300	\$2,182,000	\$1,411,100	(\$770,900)
% Change		(16.3%)	(35.3%)	
Expenditures				
Personal Services	\$1,004,800	\$978,200	\$978,200	\$0
Travel	5,200	3,000	3,000	0
Current Expense	45,700	29,800	29,800	0
Data Processing	804,900	791,000	400,100	(390,900)
DP Capital Outlay	745,700	380,000		(380,000)
Total	\$2,606,300	\$2,182,000	\$1,411,100	(\$770,900)
% Change		(16.3%)	(35.3%)	
Standard FTE	15.00	16.00	16.00	0.00
Expansion FTE				

Summary Operations provides data processing to the Department and manages the operation of the warehouse, stores and package agencies. (The budgets for the warehouse, distribution system, stores and package agencies are considered separately.) All liquor from delivery to the warehouse, until it is sold to the consumer, is traceable by computer. This results in a loss rate of less than 1/10th of one percent.

Point of Sale System Update The Department has purchased and developed a new point-of-sale system with one-time funds appropriated by the Legislature in previous years. All stores have the new system. Reports to the Analyst from the stores indicate that the system is working well and that customer service for the system is prompt and effective when problems are encountered. Implementation of the new system has improved efficiency and should contribute to additional net profit.

The Y2K situation should be addressed with the new systems currently in place. Additional needs are to be addressed to assure ongoing effectiveness of the system.

**Office Systems
Hardware / Software
Maintenance and
Replacement Program**

The Department has received a substantial amount of one-time funding over the last few years (\$812,000 for FY 1999) to upgrade technology and replace the point-of-sale system. The Analyst recommends an ongoing increase of \$120,000 General Fund Restricted - Liquor Control Fund to establish a program for the methodical acquisition, replacement and upgrading of outdated equipment and software. This should provide sufficient funds for systematic replacement on a three year rotation.

Office Systems Hardware and Software Replacement	
Ongoing Funding	FY 2000 Analyst
GFR-Liquor Control Fund	\$120,000
Expenditures	
Data Processing	\$120,000
Total	\$120,000

Systems Completion

The Department has replaced the entire point-of-sale system in all the State owned liquor stores. The warehousing system has also been replaced. Enhancements are currently being made to the system. It is projected that system changes and upgrades will continue into FY 2000. The Analyst recommends one-time funding of \$100,000 General Fund Restricted - Liquor Control Fund to address these programming, consulting and system needs.

Systems Completion	
One-Time Funding	FY 2000 Analyst
GFR-Liquor Control Fund	\$100,000
Expenditures	
Data Processing	\$100,000
Total	\$100,000

3.4 Programs: Department of Alcoholic Beverage Control - Warehouse and Distribution

Recommendation The Analyst recommends a budget of \$681,200 General Fund Restricted - Liquor Control Fund.

Financial Summary

	FY 1998	FY 1999	FY 2000	
Financing	Actual	Estimated	Analyst	Difference
GFR-Liquor Control Fund	\$843,600	\$823,200	\$681,200	(\$142,000)
Total	\$843,600	\$823,200	\$681,200	(\$142,000)
% Change		(2.4%)	(17.2%)	
Expenditures				
Personal Services	\$677,300	\$661,900	\$661,900	\$0
Current Expense	45,900	19,300	19,300	0
Capital Outlay	120,400	142,000		(142,000)
Total	\$843,600	\$823,200	\$681,200	(\$142,000)
% Change		(2.4%)	(17.2%)	
Standard FTE	18.00	18.00	18.00	0.00
Expansion FTE				

Summary

This program includes the delivery and the warehousing of the liquor and wines. Distribution is under the control of the Operations Division. During FY 1982, the warehouse was expanded to enable the Department to handle its increasing inventory. The Department now delivers over 98 percent of the merchandise. This contributes to the savings due to less product breakage and less employee theft.

3.5 Programs: Department of Alcoholic Beverage Control - Stores and Agencies

Recommendation The Analyst recommends a base budget of \$9,130,800.

Financial Summary

	FY 1998	FY 1999	FY 2000	
Financing	Actual	Estimated	Analyst	Difference
GFR-Liquor Control Fund	\$8,565,300	\$9,119,000	\$9,130,800	\$11,800
Total	\$8,565,300	\$9,119,000	\$9,130,800	\$11,800
% Change		6.5%	0.1%	
Expenditures				
Personal Services	\$5,540,700	\$6,029,800	\$6,029,800	\$0
Travel	16,300	9,500	9,500	0
Current Expense	2,970,100	3,060,600	3,072,400	11,800
Data Processing	11,400	19,100	19,100	0
Capital Outlay	26,800			0
Total	\$8,565,300	\$9,119,000	\$9,130,800	\$11,800
% Change		6.5%	0.1%	
Standard FTE	228.50	228.50	228.50	0.00
Enhancement FTE				0.00

Summary Stores and Agencies are overseen by the Operations Division. This program manages the operation of the retail outlets for the sale of liquor and wine to the consuming public. Liquor is sold through several channels in the State, among those being State stores, package agencies, private clubs, and restaurants.

Utah is a Liquor Control State Utah is one of eighteen liquor control States and one of only two that have totally State run systems. (Pennsylvania is the other State.) Utah buys from the manufacturer, stores, distributes and sells the product and collects the sales and excise taxes in State-run stores.

State Stores The State operates 36 stores throughout the State. These stores are located in large and medium-sized communities where the volume of business is high enough to support the costs of operating a store. The State owns 24 stores and leases the other 12. Employees working in the stores are State employees.

Package Agencies Liquor package agencies make up the remainder of the regular retail outlets. In smaller communities, the Department operates package stores which are normally located in an established business. The agency operator, who is not a State employee, contracts with the Department to sell liquor in compliance with State rules, regulations and operating procedures. These agencies have enabled the Department to meet the needs of the citizens in smaller communities where the expenses of a regular store would not be justified.

Store Maintenance House Bill 2 (1998 General Session) requires the Department (as well as all others) to maintain State owned facilities at a certain level of compliance to State code. The Department can not meet this standard and has begun to turn this responsibility over to

the Division of Facilities and Construction Management (DFCM). Additional funding is required by the Department to reimburse DFCM to maintain the higher standards.

Store Maintenance	
	FY 2000
Ongoing Funding	Analyst
GFR-Liquor Control Fund	\$197,000
Expenditures	
Current Expense	\$197,000
Total	\$197,000

Mid-Point Salary Increase

The Department has requested a \$551,000 General Fund Restricted -Liquor Control Fund building block to raise all Department employees to mid-point on the salary scale. The Department reports experiencing turnover resulting in costs for retraining employees as they leave to take employment with higher pay.

It is reported to be difficult getting and retraining quality applicants in stores, because of low pay, limited hours and no benefits. (Most new store employees are initially hired as part-time employees.) Applicants for store and agency jobs must be at least 21 years of age. These employees are responsible for selling a controlled substance. The 1998 Legislature approved funding and FTE for 26 new positions for Stores and Agencies. An agency has authority to hire up to the midpoint, but must address the equity issue with current employees who may be below the mid-point.

The Analyst notes that the equity issue is beyond the Department itself to equity with all State employees. The Department of Human Resource Management reports that well over 50 percent of State employees are below the salary mid-point. The State requires a position to be at least 11 percent below mid-point and have at least an 11 percent turnover rate before a market comparability adjustment is recommended. No market comparability adjustments were recommended for this Department by the Department of Human Resource Management for FY 2000.

The Analyst recommends that the Legislature consider a range of options from full funding to bring all employees to mid-point to no funding for any employee.

Full funding for All Department employees	\$551,000
Full funding for Warehouse and Stores/Agencies only	523,900
Full funding for Stores/Agencies only	461,900
One step for all employees	206,000
One step for Warehouse and Stores/Agencies Only	151,300
One step for Stores/Agencies Only	136,000
No additional funding other than the State compensation plan	0

4.0 Tables: Department of Alcoholic Beverage Control

Programs	FY 1996 Actual	FY 1997 Actual	FY 1998 Actual	FY 1999 Estimated	FY 2000 Analyst
Executive	\$757,500	\$807,800	\$836,200	\$842,400	\$844,500
Administration	738,900	812,400	773,600	974,300	975,200
Operations	1,085,700	1,293,000	2,606,300	2,182,000	1,631,100
Warehouse	810,600	844,700	843,600	823,200	681,200
Stores and Agencies	7,482,500	7,708,700	8,565,300	9,119,000	9,327,800
Total	\$10,875,200	\$11,466,600	\$13,625,000	\$13,940,900	\$13,459,800
% Change	6.2%	5.4%	18.8%	2.3%	(3.5%)

Financing	FY 1996 Actual	FY 1997 Actual	FY 1998 Actual	FY 1999 Estimated	FY 2000 Analyst
GFR-Liquor Control Fund	\$10,941,200	\$11,517,100	\$13,684,300	\$13,840,900	\$13,459,800
Beginning Nonlapsing	62,000	100,000	51,000	100,000	0
Closing Nonlapsing	(100,000)	(51,000)	(100,000)	0	0
Lapsing	(28,000)	(99,500)	(10,300)	0	0
Total	\$10,875,200	\$11,466,600	\$13,625,000	\$13,940,900	\$13,459,800
% Change	6.2%	5.4%	18.8%	2.3%	(3.5%)

Expenditures	FY 1996 Actual	FY 1997 Actual	FY 1998 Actual	FY 1999 Estimated	FY 2000 Analyst
Personal Services	\$7,232,500	\$7,718,600	\$8,384,100	\$8,894,500	\$8,894,500
Travel	30,700	30,200	28,700	20,600	20,600
Current Expense	3,095,000	3,062,100	3,503,000	3,693,300	3,905,100
Data Processing	211,200	367,800	816,300	810,500	539,600
DP Capital	6,100	83,600	745,700	380,000	100,000
Capital Outlay	299,700	204,300	147,200	142,000	0
Total	\$10,875,200	\$11,466,600	\$13,625,000	\$13,940,900	\$13,459,800
% Change	6.2%	5.4%	18.8%	2.3%	(3.5%)
Standard FTE	255.00	259.50	285.50	286.50	286.50
Expansion FTE					0.00